

Market Analysis of Virtual Estimating for Reconstruction

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Reconstruction is the sector of construction that focuses on fixing fire, mold, and water damage to properties. Typically these are covered by insurance companies and the cost of these are determined through an insurance estimate using Xactimate. These insurance estimates are typically performed through visiting the site a few times by both the insurance company and the reconstruction company. Each of them will typically put together an estimate based on normal photos and then compare the estimates and then pay out the homeowner. This paper will examine the market interest in California for using virtual tours and expert insurance estimators in property insurance claims. The analysis of the market interest is done through a survey which was sent out to 30 different reconstruction and construction contractors. The survey shows convincing evidence that there is a sufficient demand for a virtual estimating company for property insurance claims. As a result, this paper will also outline the business model of the company Spencer 3. This company is a property insurance virtual estimating company that I am opening up with my father, Paul Spencer.

Key Words: Virtual Tours, Reconstruction, Estimating, Property Insurance, Market Analysis

Introduction

The timeline of the traditional reconstruction insurance claim is first emergency services/mitigation, then insurance estimates and negotiation, and lastly structural repair. The reconstruction industry is broken up into two different parts: the mitigation side and the structural repair side. The mitigation side is trying to limit the damage of the property from extending further and clearing out any potential hazards to the building occupants. In the case of a flooded house, mitigation is seen through the use of containment, dry out equipment, and informing the property owner. The containment side is used in order to close off the section of the property that is damaged and prevent building occupants from being exposed to hazards such as microbial growth. The structural repair side is where all of the parts of the property that were damaged during the course of the insurance loss will restore the owner back to pre-loss condition.

The estimating process is when the contractor and the insurance company use a program called Xactimate to estimate the cost of repairs and mitigation. Xactimate is a 3D modeling program that has built in unit costs for different areas, and is used on the majority of property insurance claims. This is a significantly different type of estimating compared to traditional construction estimating. In traditional construction, estimating is used to speculate costs and to write bids. Typically in reconstruction, only one contractor is estimating the job and this is decided by the property owner. An estimate is then provided with an amount of money that is going to be given to make sure the insured is restored back to whole. This amount of money is often referred to as the undisputed amount. After the undisputed amount is approved and the check is cut, the structural repair begins.

This paper is an entrepreneurial market analysis of virtually estimating insurance losses. This analysis was done through a survey that was sent out to random construction and restoration contractors. This survey is meant to discover if there is interest in using expert insurance estimators to estimate and negotiate property insurance losses on the contractors behalf with insurance companies. I also want to explore if there is a difference between interest in general contractors and reconstruction companies interest. Another deliverable as part of this project is a business model description of the company.

General Background

The estimating process for insurance work can often be a headache for both reconstruction contractors and traditional contractors alike. My father, Paul Spencer owned his own reconstruction company for 20 years and at one time had 50 employees employed under him. Through owning his company, he realized that 10 to 12 percent of his revenue was going towards estimating and negotiating with insurance companies. He needed to invest this amount of revenue into estimating and negotiating in order to get a sufficient amount of money to restore the homeowner back to whole. The majority of the time, the insurance company will not give a sufficient amount of money to restore the homeowner back to whole. For the past couple of years, Paul Spencer and I have been working together to learn how to most effectively estimate insurance losses through the use of virtual tours.

Recently, Paul and I have been using virtual tours to estimate insurance losses in order to a) capture as much documentation as possible, b) to reduce our travel expenses for estimating the job, and c) make our estimates more accurate. In the insurance industry, we have a common saying, "If it is not documented, then it never happened." We need a photo for every part of the job that was completed by the contractor and documentation supporting that work. This is in order to make sure we are able to explain all of the damages to the insurance company adjuster. The virtual tour ensures we are able to save money on travel expenses by eliminating the need for estimators taking a separate trip to the jobsite in order to do a job takeoff and take photos of the damages.

Survey Methodology

The goal of this survey is to see how much interest there is in using virtual tours in construction and reconstruction in order to see if there is a demand for virtual estimates. I selected the applicants of this study by surveying different types of companies that I found through Google searches. I selected 15 different reconstruction contractors and 15 different general contractors to send the survey to. In other words, I distributed the survey to 30 different contractors. I then called up each of the companies and explained to them that I was conducting an interest survey for my new business idea and then asked them if they would like to fill out a survey. This survey was distributed through the use of Qualtrics. I then sent the survey to their preferred email and repeated this process for every contractor.

Results and Analysis

The very first question of the survey was a screening question that had the contractors select their trade. Depending on the trade they selected, they were sent to a survey that was catered to their knowledge of the reconstruction industry. So, if they answered that they were a part of reconstruction, then they would be sent to a set of questions designed for reconstruction contractors. If they answered that they were a part of anything other than reconstruction, they then were sent to the construction set of questions. Each set of these questions were fairly similar, but they used different language for the specific type of construction trade.

Out of the 30 contractors that this survey was sent out to, 22 people actually answered the survey. The vast majority of the respondents were part of reconstruction. The construction trades had 10 people respond to the survey and the reconstruction trades had 12 people respond to the survey. The construction trades that were surveyed were as follows: 1 heavy civil, 3 residential, 2 commercial, and 4 specialties contractors. I believe that there were more reconstruction respondents because it was easier to get a hold of the reconstruction contractors compared to the construction contractors. The reconstruction contractors are probably more used to picking up the phone to a random number because they often get most of their leads through this process.

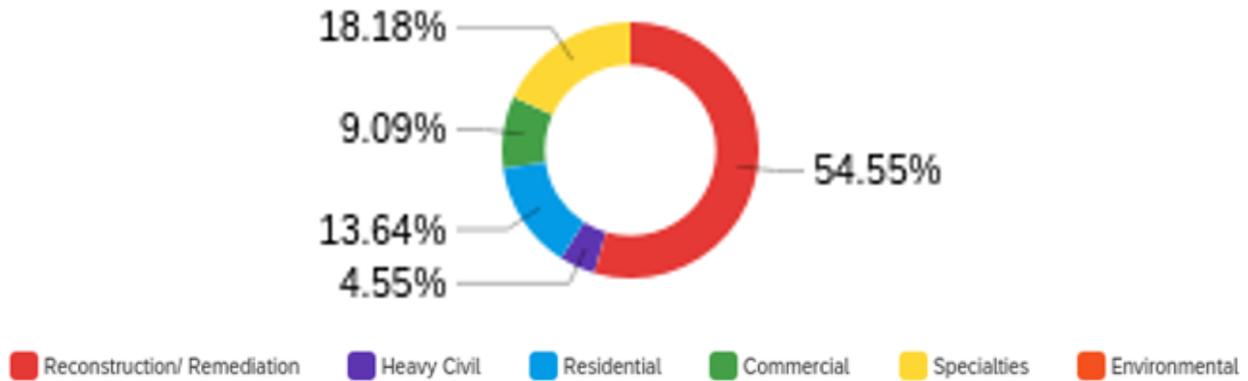


Figure 2: Screening Question showing the different types of companies who took the survey.

Reconstruction Results and Analysis

The photo below was located on the top of the reconstruction set of survey questions. I chose this photo because it shows the part of the house that the firefighters had torn apart in order to put out the fire. This is a common site for a fire job for a reconstruction contractor and it clearly shows the main source of damage on this property. I also included a link to the virtual tour below the photo for the reconstruction contractors to try out our virtual tour software. This same link is also located underneath the photo seen below. On the left hand side are all of the locations where a panoramic photo was taken. There is a measuring tool, depicted as a ruler in the bottom left corner of the pano. The drawing of the property on the left was stitched together through the laser on top of the panoramic camera. To switch to different parts of the property, there is a drop down menu at the bottom of the map where it says “Main Floor.”

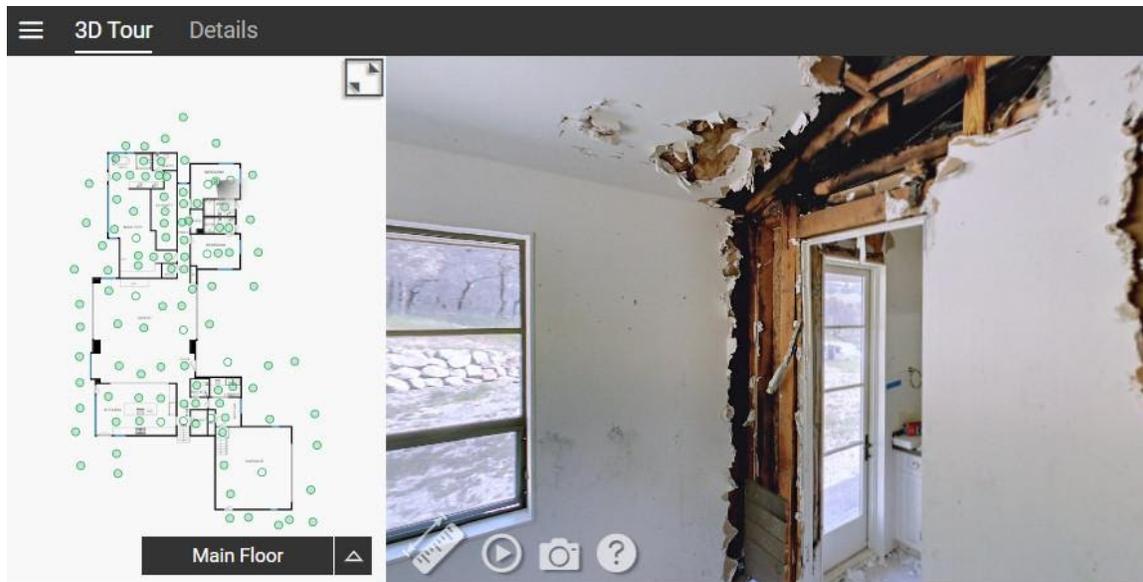


Figure 3: Virtual tour picture attached to reconstruction set of survey questions.

Virtual Tour: <https://sites.google.com/spencer3.com/newreal/home>

Figure 4 shows the results of how often virtual tours are used within reconstruction companies. Out of the 12 reconstruction respondents, only four of the contractors had seen virtual tours being used on their jobs. This is less than I expected. I was under the impression that virtual tours were used a bit more in the industry because I am so used to seeing virtual tours on the jobs that I am a part of. I was surprised that not a single respondent had seen virtual tours being used on half of their jobs. Out of the jobs that Paul and I have been a part of, we typically do

virtual tours for most of them. We do not use virtual tours on all of our jobs because some are just too small for virtual tours.



Figure 4: Results on how often reconstruction companies use Virtual Tours.

Figure 5 shows the reconstruction contractor's interest in using virtual tours for documentation and for a to scale Xactimate drawing. There was not much interest when it came to this question. There are definitely a few potential early adopters because two respondents said that they were moderately interested in virtual tours for reconstruction. However, nine respondents had said they were only slightly interested in having virtual tours being used on their jobs for documentation and sketching purposes. I think one reason that these results were quite low could be due to the contractors thinking the virtual tour process is more expensive than the processes they currently have in place.

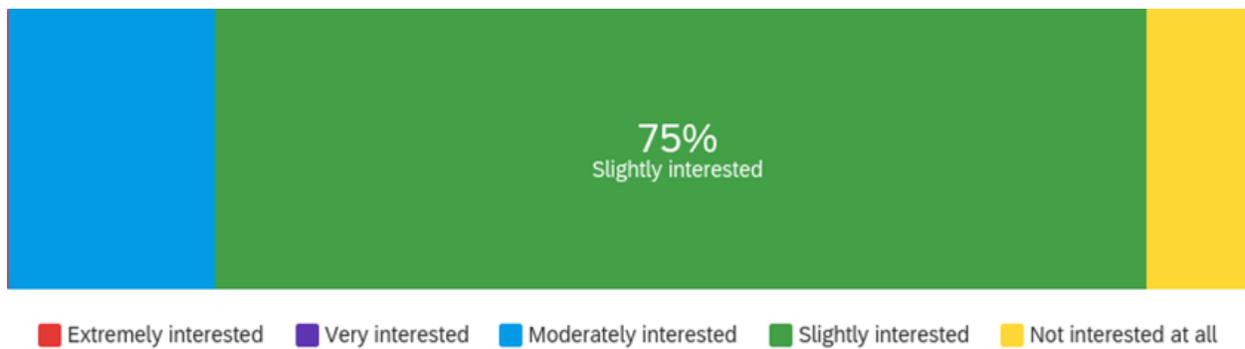


Figure 5: The interest in to scale Xactimate drawings for Xactimate through virtual tours in reconstruction.

As Figure 6 shows, there was a much more positive response to having an expert estimator write estimates using virtual tours. There were two reconstruction contractors who were very interested in having a virtual estimator and six contractors who were moderately interested. When I was talking on the phone and distributing the survey I had a few contractors ask when we would be able to start working together. I told them that we will be opening up officially this summer. This shows that there is a better market for reconstruction companies in doing estimates through virtual tours as opposed to just doing a virtual tour. This part of the market seems like it would be a great place to find a few early adopters and these early adopters would be long term clients since they have many insurance related jobs.



Figure 6: Reconstruction company’s interest in having an expert estimator write estimates through virtual tours.

Construction Results and Analysis

The construction companies surprisingly showed a more positive response than the reconstruction companies in general. Figure 7 is the photo that I put on top of the construction survey. This photo is taken from the same virtual tour as the reconstruction photo, but I chose a part of the house that does not look as damaged. This is because I did not want to make construction contractors think that we were only capable of doing virtual tours for reconstruction contractors. From the angle of this photo, it is a bit more difficult to see the soot on the counter. I also chose this photo because I wanted to see if there was going to be any interest in having construction companies use virtual tours to showcase their work as advertising to their future customers.

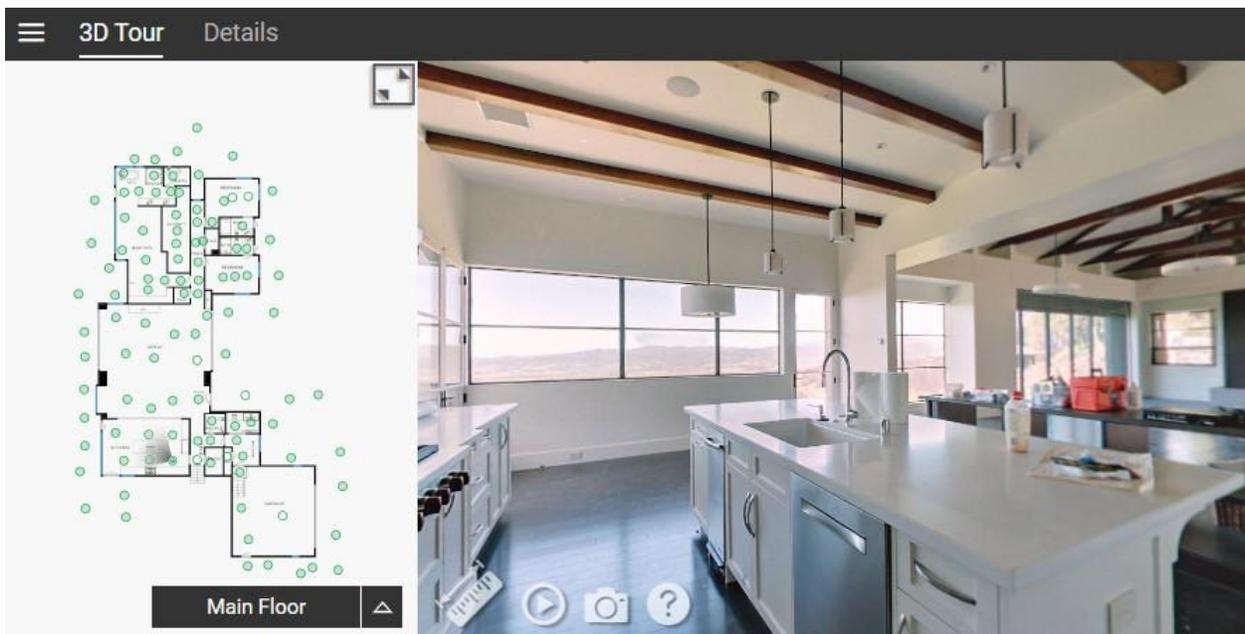


Figure 7: Virtual tour picture attached to construction set of questions.
 Virtual Tour: <https://sites.google.com/spencer3.com/newreal/home>

From the survey question results in Figure 8 below, I found that only 2 of our 10 respondents had ever used virtual tours on their jobsite for construction purposes. This was a smaller proportion when compared to the reconstruction contractors. This might be due to reconstruction contractors having higher stakes when taking pictures of a job compared to construction contractors. Oftentimes when a reconstruction contractor does not take detailed photos of a jobsite, the insurance company will not pay for all of the work unless there is sufficient documentation of the job.



Figure 8: Results on how often construction companies use Virtual Tours.

The general interest in using virtual tours in construction was significantly greater than in the reconstruction industry. Figure 9 below shows that 6 of the respondents were moderately interested and 1 respondent was very interested. The reconstruction companies who responded to this similar question only had 2 people who were moderately interested in using virtual tours alone. I was surprised to see that in this survey the construction industry was more interested in taking up a new technology like virtual tours. I was expecting there to originally be little to no interest from the general contractors when compared to the reconstruction contractors. This means that there is definitely an interest in using virtual tours within construction and not many of the companies have started to adopt the technology yet.

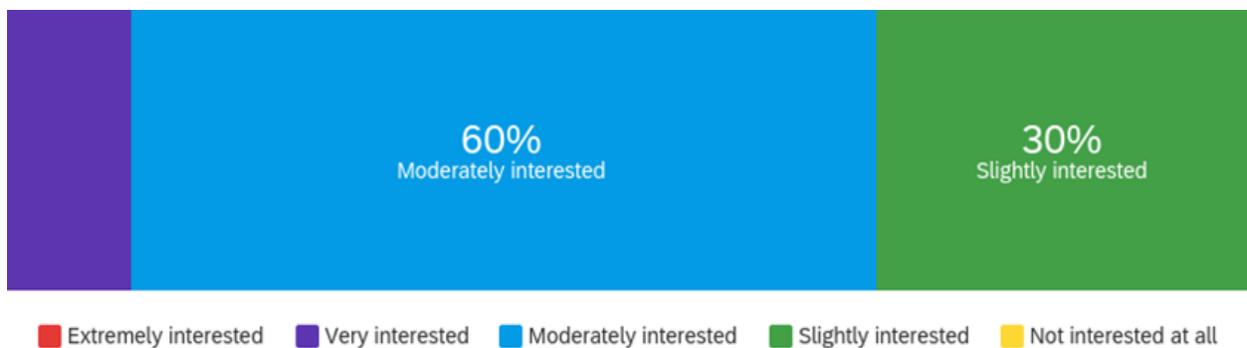


Figure 9: The interest in construction of using virtual tours.

The final construction company survey question results were the most positive and surprising. Every single one of the contractors were either extremely, very, or moderately interested in using virtual tours and an expert estimator for insurance negotiations and estimates. These survey results showed the greatest amount of positive survey results. The only downside to this is that some of these contractors do not typically do a lot of insurance related work. This would mean that our company would need to do more advertising to reach a large amount of general contractors. However, this knowledge could lead to some very large jobs and we would be able to work hand and hand with the general contractors to guide them through the insurance jobs. This result was a much more positive interest compared to the reconstruction industry. I think that a lot of the reconstruction industry may feel like they already have their insurance estimates covered and may just want to try out an expert estimator to see if it would be more economically efficient than what they are currently doing.

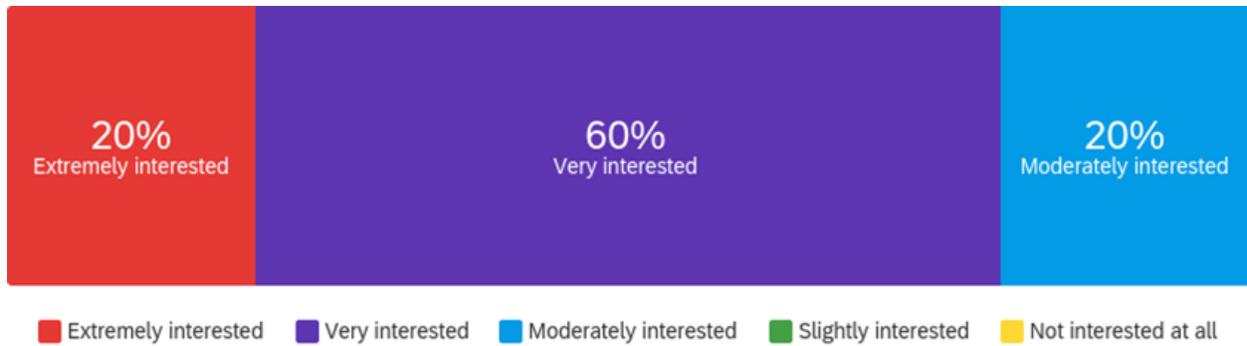


Figure 10: Construction company’s interest in having an expert estimator write estimates through virtual tours.

Business Model

As part of one of my deliverables I created a business model plan for Spencer 3 which will be fully executed starting in the summer of 2021. The center part of the business model is what we built our business around which is the value proposition. It reads, “We serve contractors who feel overwhelmed when they struggle to get enough money from home insurance companies in order to remediate and reconstruct their client’s property.” This is ultimately the problem that we are trying to solve with our company for our customer segments. We want to serve all of our contractors who are both reconstruction contractors and other general contractors who do not have much experience in the insurance industry.

When we get started, we plan on using our channels in order to focus our marketing strategies. We want to develop a long-term dedicated personal assistance to our clients. We plan on doing this by setting up each of our contractors with their personal estimator in which they will work side by side on insurance projects. We then will have senior estimators look over the estimates prior to sending them out. We will not be creating an office in the near future because we will be able to do all of the estimates virtually through the use of virtual tours. We will find dedicated photographers in specific areas where we will conduct our insurance work or train the contractors on how to create the virtual tours themselves.

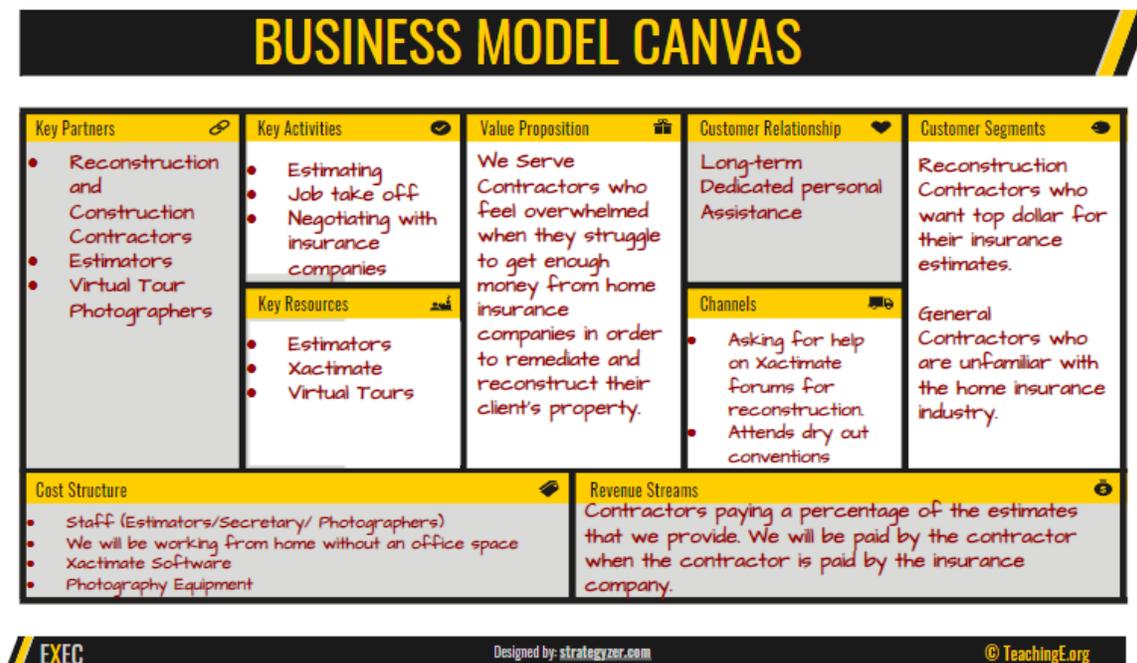


Figure 1: Business Model for Spencer 3, our virtual estimating company.

We will then charge based on the amount of profit that we make for the contractor. We will also be paid by the contractor when they are paid by the insurance company. For insurance work, this will create a large cash flow gap between the work we complete and the work we are paid for. The insurance company typically takes about 3 months in order to negotiate and settle an insurance claim. Then, it can often take a good amount of time before the contractor is paid after they complete their work. This can present an issue of cash flow in our early months, but it will be temporary since after we start to have a steady amount of jobs completed, we then will be able to have a steady amount of cash flow.

Lessons Learned

One of the things that I learned through this project is that it can be a little nerve racking to cold call random contractors that I have never met and ask them to fill out a survey. This experience had me step out of my comfort zone. I ended up feeling a lot more comfortable as the calls went on, and all of the contractors that I contacted were very helpful and respectful.

Another thing that I learned is that the entrepreneurial process of creating a business plan can be difficult but it is so rewarding. For the past couple of years, my father and I have been talking about this business idea and planning it. I am excited to enter this journey with my partner, Paul Spencer.

My favorite thing that I learned through this process was that my father and I have a business model that people are interested in. I was expecting there to be a lot less interest in virtual tours being used in insurance work from both construction and reconstruction contractors. Both the reconstruction and construction industries showed signs of early adopters to our business idea.

The Next Steps

From the market analysis results, we are continuing on with our business plan to open up a virtual estimating company that uses virtual tours on insurance claims. We are currently working on opening up our company partnership as a S Corporation called Spencer 3. After we open up officially this summer we will reach out to construction and reconstruction contractors for our services. At the start, it will only be Paul and I. As our volume increases in estimates, we will be bringing on more estimators to fulfill the demand. Also, we will start to train more virtual tour photographers so that we do not need to spend as much time doing it ourselves. We would like to be able to find a network of virtual tour photographers to minimize the travel expenses for us and our customers.